

OFFICE OF THE STATE AUDITOR

FINANCIAL AUDIT

FOR THE TWO YEARS ENDED DECEMBER 31, 1992

SEPTEMBER 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-47

OFFICE OF THE STATE AUDITOR
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED DECEMBER 31, 1992

Public Release Date: September 3, 1993

No. 93-47

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Audit service charge receipts, payroll, and in-state travel.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found the internal control structure to be effective.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.

296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Mark Dayton, State Auditor
Office of the State Auditor

Audit Scope

We have conducted a financial related audit of the Office of the State Auditor for the two calendar years ending December 31, 1992. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the State Auditor, as discussed in the Background Information section. We have also made a study and evaluation of the internal control structure of the Office of the State Auditor in effect at December 1992.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Office of the State Auditor are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Office of the State Auditor's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Office of the State Auditor is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- audit service charges receipts,
- payroll, and
- in-state travel,

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

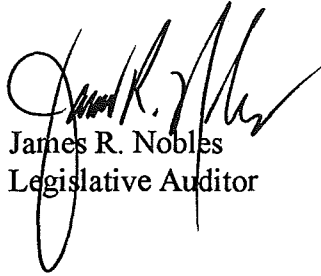
In our opinion, the internal control structure of the Office of the State Auditor in effect at December 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Office of the State Auditor.

The results of our tests indicate that, with respect to the items tested, the Office of the State Auditor complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Office of the State Auditor had not complied, in all material respects, with those provisions.

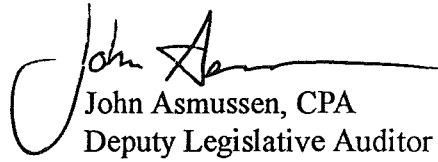
This report is intended for the information of the Legislative Audit Commission and management of the Office of the State Auditor. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 3, 1993.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Mr. Mark Dayton, State Auditor
Page 3

We thank the State Auditor's staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 15, 1993

Report Signed On: August 25, 1993

Table of Contents

	Page
Background Information	1

Audit Participation

The following staff from the Office of the Legislative Auditor prepared the report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Rhonda Regnier, CPA	Auditor-in-Charge
Mary Annala, CPA	Staff Auditor

Exit Conference

The report was discussed with the following staff of the Office of the State Auditor on April 15, 1993:

Mark Dayton	State Auditor
Terence Pohlkamp	Assistant State Auditor
Susan Jaeger	Accounting Supervisor

Office of the State Auditor

Background Information

The Office of the State Auditor (OSA) was established by Article V of the State Constitution and operates under Minn. Stat. Chapter 6. The State Auditor is elected for a four year term. Mark Dayton's term as State Auditor began on January 7, 1991. The State Auditor serves on the state's Executive Council, State Board of Investment, Land Exchange Board, Minnesota Housing Finance Agency Board, Rural Finance Authority Board, and the Public Employees Retirement Association Board.

The OSA has authority by law to conduct annual financial and compliance audits of counties, cities, police and fire relief associations, soils and water conservation districts, and regional development commissions. Upon request, the State Auditor may conduct audits of school districts and local governmental units. In addition, the State Auditor's Research Division analyzes local government financial data to assist the state and local governments. The Police and Fire Relief Oversight Division monitors the financial reporting for the various police and fire relief associations throughout the state. The Single Audit Division determines if single audit reports submitted to the OSA comply with reporting requirements of the Single Audit Act of 1984.

The audit activities of the OSA are fully funded by General Fund appropriations since July 1, 1990. The OSA's appropriations for fiscal year 1991, fiscal year 1992, and fiscal year 1993 were \$5,588,475, \$6,371,000, and \$6,725,000, respectively. Minn. Stat. Section 6.58 requires the State Auditor collect fees from client billings covering the total cost and expenses of audit examinations. The fees collected in the first half of fiscal year 1991 were not sufficient to cover the costs associated with the audit process. The fees were increased twice in the last half of fiscal year 1991 to adequately cover costs. The fees, effective July 1, 1990, are deposited as nondedicated receipts in the General Fund. The following summary shows financial activity from January 1, 1991 through December 31, 1992.

Office of the State Auditor

	<u>Year Ended December 31</u>	
	<u>1991</u>	<u>1992</u>
Revenue:		
Audit Service Charges	\$4,894,471	\$5,187,996
Other Revenue	<u>152,970</u>	<u>159,792</u>
Total Revenue	<u>\$5,047,441</u>	<u>\$5,347,788</u>
Expenditures:		
Payroll	\$5,111,642	\$5,372,654
Travel, In-State	264,998	282,763
Other Expenditures	<u>723,075</u>	<u>571,175</u>
Total Expenditures	<u>\$6,099,715</u>	<u>\$6,226,592</u>
Less Nonreimbursable Expenditures	<u>1,022,079</u>	<u>1,343,789</u>
(Amount provided by State Auditor.		
See Note 1)		
Reimbursable Expenditures	<u>\$5,077,636</u>	<u>\$4,882,803</u>

Note 1: The amounts for payroll include staff associated with the constitutional officer duties, special investigations, police and fire oversight, research and information activities, and Single Audit activities. The activities are not reimbursed through the audit service charges collected by the agency. The constitutional officer duties and special investigations are not fee generating activities, but are paid from General Fund appropriations. However, the police and fire oversight and the research and information activities are reimbursed to the state's General Fund as a reduction of state or local aid. Single Audit activities are recovered through the state-wide indirect cost process.

Note 2: The expenditures do not include \$38,900, which had been accumulated since January 1992 as a reserve to cover potential back salary costs pending the outcome of the Minnesota Court ruling to reinstate a terminated employee. The Appeals Court made a decision to reinstate an employee who previously was fired. The OSA is making an appeal to the Minnesota Supreme Court.

Source: The following Statewide Accounting System reports were adjusted to a calendar year basis. Managers Financial Reports, as of August 31, 1991, September 5, 1992, and December 31, 1992; and Estimated/ Actual Receipts Reports as of August 31, 1991, September 5, 1992, and December 31, 1992.